# What constitutes impact? Definition, motives, measurement and reporting considerations in an African impact investment market

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## Abstract

Impact investing is quickly gaining traction globally as it has the potential to address many of the environmental and social challenges faced by humanity. Early scholars claimed that definitional ambiguity confounds impact measurement and hence reduces the attractiveness of this investment strategy. To investigate this claim, semi-structured personal interviews were conducted with 13 experts in the South African impact investment market. Participants did not regard definitional ambiguity as a serious barrier. They did, however, find it difficult to articulate specific impact objectives that could match their financial return expectations. More training and information sharing is required to promote the wider adoption of this responsible investment strategy.

## 1. Introduction

In a recent Forbes post, Cox (2018) claimed that impact measurement could be regarded as investing's "final frontier". This statement not only highlights the notion that several challenges need to be overcome, but also that opportunities exist to unlock a new dimension of conventional investment streams. Broadly speaking, impact investing refers to an investment approach that intentionally seeks to create both a social and/or environmental impact alongside a financial return (Watts & Scales, 2020; Battilana & Lee, 2014; Harji & Jackson, 2012). These dual goals can be achieved by investing in funds and entities offering a range of products and services such as micro loans, affordable housing, skills development, renewable energy, and sustainably grown crops.

Humanity faces several grand and interrelated challenges (Martí, 2018). Many of these challenges, including climate change impacts, poverty, inequality and access to education, food, potable water and sanitation are amplified in emerging markets (Hanouz, 2016). As governments in these markets typically do not have sufficient resources to deal with these challenges, impact investors play an increasingly important role (Mogapi et al., 2019; Brandstetter & Lehner, 2015; Ormiston et al., 2015; Burand, 2014; Jackson, 2013b).

A review of the extant literature reveals an increasing receptiveness amongst institutional investors towards this dualistic investment approach (Höchstädter & Scheck, 2015; Skuler, Mokoena, Habberton & Welsh, 2015; Saltuk, 2015) which has also been called cause-based, targeted, community and mission-based investing (Revelli & Viviani, 2015; Hebb, 2013; Wood et al., 2013). Impact investors typically provide equity, debt, alternative assets, guarantees or grants to qualifying entities (Mudaliar et al., 2016).

A number of global initiatives have intensified pressure on investors to consider ethics, sustainability and social inclusion when allocating capital. Some of these initiatives include the World Economic Forum's Global Agenda Council on Social Innovation, the Global Impact Investing Network (GIIN) and the United Nations-backed Principles for Responsible Investment (PRI) and Sustainable Development Goals (Milligan & Schöning, 2011).

Emerging markets are a key focus for impact investors. Approximately half of all assets under management (AUM) in 2016 were invested in emerging markets (Mudaliar et al., 2017). According to the 2017 African Investing for Impact Barometer, impact investment markets in Southern, Eastern and Western Africa have grown rapidly since 2013, with South Africa taking the lead (Giamporcaro et al., 2017). As in many other African markets, the South African government is unable to meet the demands of the rapidly growing population (Richards et al., 2007; Dollery & Buthelezi, 2004).

Although South Africa has one of the strongest economies on the continent, it is haunted by unacceptably high levels of unemployment and inequality and a critical lack of skills to promote growth (Mudaliar et al., 2016). The investment and regulatory environments in the country furthermore favour large firms and conglomerates (Haddad et al., 2019). Political uncertainty, poorly governed state-owned enterprises and increasing institutional weaknesses have prompted all three major international credit rating agencies to downgrade the country's sovereign credit rating to junk status (ibid) in recent years. Despite these challenges (or perhaps as a result of them), the South African impact investment market remains the strongest impact investment market on the continent. It also offers a doorway to many other African markets (Mogapi et al., 2019; Mudaliar et al., 2016).

AuM in the South African impact investment market in 2017 amounted to approximately $15 billion (Giamporcaro et al., 2017). This value was 15 times higher than the second-largest market in Southern Africa, namely Zambia (Mudaliar et al., 2016). The South African impact investment market also saw the largest number of deals on the continent. Unfortunately, impact AuM still only represented a fraction of total investments in the country (ibid). The prospects for impact investment markets in emerging economies, including those in Africa, are very promising (Mahn, 2016; Skuler et al., 2015).

Previous studies on impact investing have focused on bringing conceptual clarity and a better understanding of the investment process and exit mechanisms (Clarkin & Cangioni, 2016; Höchstädter & Scheck, 2015; Combs, 2014; Mendell & Barbosa, 2013). Others have charted the measurement and value of social and environmental impact (Barman, 2015; Brandstetter & Lehner, 2015; Nicholls et al., 2015; Ebrahim & Rangan, 2014; Jackson, 2013a). Attention has also been given to the development of the global impact investment market, and the identification of opportunities and challenges faced by impact investors, social entrepreneurs and regulators (Phillips & Johnson, 2019; Ormiston et al., 2015; Burand, 2014).

Agrawal and Hockerts' (2019) systematic review of impact investment studies shows that scholarship in the field has been mostly exploratory. As such, these authors call for more in-depth studies on opportunity recognition, selection processes adopted by impact investors, stakeholder management, and performance reporting. In this study, the latter was explicitly addressed.

Very few academic studies on impact investing in Africa have been published. Exceptions include Ngoasong et al. (2015) whose scoping study centred on Sierra Leone, Cameroon and Kenya, and Mogapi et al. (2019), McCallum et al. (2019), and Urban and George (2018) who investigated the phenomenon in South Africa. Watts and Scales (2020) also gauged the views of 30 interviewees on how impact investing is influencing new forms of agricultural development in sub-Saharan Africa. According to these authors, impact investing is not only a tool for creating new sources of funding for existing development activities. They argue that it is also changing development policies and practices by bringing in new actors, altering the nature and activities of existing actors, and producing new and uneven geographies of agricultural development in the region.

Despite the prominence of emerging markets in the impact investment arena (Burand, 2014), there is clearly a shortage of research in these markets. This study addressed the gap and also responds to calls by Michelucci (2017) to debate alternatives to the dominant Anglo-Saxon impact investment paradigm. We evaluated the views of 13 participants in the South African impact investment market. Specific attention was given to each interviewee's definition of impact investing, their motives for adopting this responsible investing (RI) strategy and views on impact measurement and reporting. Participants were specifically asked to reflect on what 'social and environmental impact' constitutes and whether they prefer standardised or bespoke metrics to measure and report impact.

In line with previous impact investment scholars (Chowdhry et al., 2016; Evans, 2013) the multi-task contract theory was adopted as theoretical lens in this study. This principal-agent model posits that investors (principals) delegate the production of multiple outputs (financial returns and impact) to agents such as asset managers and entrepreneurs. This theory furthermore acknowledges that principals cannot fully observe how multiple agents allocate the resources entrusted to them. As such, trade-offs between objectives are likely to occur. The risk of moral hazard is amplified by imperfect information, the lack of accountability mechanisms and uncertainty about exogenous events in emerging fields such as philanthropic venture capital and impact investing (Pitesa & Thau, 2013; Scarlata & Alemany, 2010).

Role players across the investment value chain need clarity on what social and environmental impact embodies. They also need guidance on how to measure impact and consistently report the impact generated. Unless these uncertainties are addressed, the building of track records will remain a challenge and will likely stunt the growth of the impact investment market in South Africa and elsewhere. Role players include asset owners (such as institutional investors, including charitable foundations and high net worth individuals), asset managers, demand-side actors (notably social enterprises) and service providers such as consultants, research companies and standard-setting bodies (Harji & Jackson, 2012).

A brief literature review is presented next followed by details on the methods used to collect and analyse primary qualitative data. Pertinent findings are then reported along with recommendations for impact investors, consultants and researchers.

# 2. Impact investing

Impact investing is defined in the following section, followed by discussions on impact investors' dual motives and the ambiguity surrounding social and environmental impact identification, measurement and reporting.

## 2.1 Defining the phenomenon

The lack of a standardised definition has been at the centre of much academic discourse since the term was first coined at the 2007 Rockefeller Foundation convention (Skuler et al., 2015; Bishop, 2014; Drexler et al., 2014; Jackson, 2013a; Harji & Jackson, 2012). When this study commenced (2016), scholars were of the opinion that definitional ambiguity confounded impact measurement and management and hence reduced the attractiveness of this RI strategy (Höchstädter & Scheck, 2015). To further complicate matters, they argued that there was no universally agreed upon set of metrics to measure impact (Skuler et al., 2015; Reeder, 2014) or standardised definition of the phenomenon (Clark et al., 2012). A review of prior studies at the time, however, showed that four elements featured in most definitions.

Firstly, an impact investment was seen as one that involved an active and intentional deployment of capital (Bonsey et al., 2016; Burand, 2014; Freireich & Fulton, 2009). Scholars agreed that the investment must be deliberate and the principal must have financial, social and/or environmental outcomes in mind from the outset (Urban & George, 2018; Höchstädter & Scheck, 2015; Grabenwarter & Liechtenstein, 2011). To reiterate: the impact of the investment cannot be coincidental. The investor must purposefully and actively seek investment opportunities that align with his/her social and/or environmental objectives. Moreover, the adverb 'actively' alludes to the notion that the investor is seeking opportunities and not merely screening out funds or entities that have an adverse impact on society or nature in some or other way (Brest & Born, 2013b).

Secondly, the impact created by the investment should be measurable (Bonsey et al., 2016; Bishop, 2014; Burand, 2014; Drexler et al., 2014). According to Grabenwarter and Liechtenstein (2011), it is essential to establish clear social and/or environmental goals before a financial commitment is made. Furthermore, progress against these goals should be measured and reported to ensure transparency and accountability. Best practices in the field suggest that performance metrics should be based on investors' objectives and standardised metrics where possible. In an effort to establish a uniform set of measurement standards, the GIIN initiated the Impact Reporting and Investment Standards (IRIS) in 2009 and later the Global Impact Investing Rating System. In a 2015 study, 60 per cent of respondents used metrics aligned with IRIS. Many of these respondents also employed investment-specific measurement techniques alongside the IRIS metrics (Saltuk, 2015).

Thirdly, there should be a positive correlation between the intended social and/or environmental impact and an investment's expected return (Skuler et al., 2015; Saltuk, 2015; Bishop, 2014; Burand, 2014; Arosio, 2011; Freireich and Fulton, 2009). Grabenwarter and Liechtenstein (2011) stress that there should be no trade-off between impact and financial return. Lastly, an impact investment should have a net positive effect on society and/or the natural environment (Skuler et al., 2015; Saltuk, 2015; Barby &and Pedersen, 2014; Drexler et al., 2014; Brest & Born, 2013a; Arosio, 2011). An impact investor must consider the net impact of his/her investment by taking into account the associated benefits and harms (Brest & Born, 2013a). Although principals might have good intentions, they can still generate negative externalities (Martí, 2018). As such, it is important that they pre-empt the full impact of their actions.

In the years since, all of these elements were incorporated into the GIIN's (2020) definition of an impact investment as "an investment made into companies, organisations, and funds with the intention to generate positive, measurable social and environmental impact alongside a financial return". Not only has this definition been embraced by contemporary scholars (Barber et al., 2020; Watts & Scales, 2020; Phillips & Johnson, 2019), but also by organisations created with the explicit aim of promoting this dualistic investment approach, notably the Impact Management Project (2020).

## 2.2 Impact investor motives

Although most scholars acknowledge that the motives of responsible and impact investors differ from those of conventional investors, investor motives remain a largely under-theorised and researched topic (Roundy, Holzhauer & Dai, 2017; Capelle-Blanchard & Monjon, 2012). One exception is Richardson & Cragg (2010) who investigated the tensions that arise when responsible investors seek the dual goals of being virtuous and prosperous. They warned that the pursuit of returns should not prevail over the ethical agenda and claimed that the RI discourse has reached a point where "its capacity to promote social emancipation, sustainable development and other ethical goals is in jeopardy" (Richardson & Cragg, 2010:21).

Richardson and Cragg's (2010) criticism applies to impact investors as well, particularly those who regard themselves as 'finance-first' impact investors. While these investors integrate social and/or environmental considerations into their investment decisions, they prioritise financial returns (Tekula & Andersen, 2019; Harji & Jackson, 2012; Freireich & Fulton, 2009). They are often commercial investors who actively seek out opportunities that offer market-related, risk-adjusted returns. Finance-first impact investors pursue higher returns than impact-first investors and often have a base line (floor) or market risk premium requirement. Finance-first investors typically include banks, pension funds, venture capital funds, sovereign wealth funds and development finance institutions (Barber et al., 2020; Ormiston et al., 2015; Harji & Jackson, 2012). Many of these investors are required to uphold a fiduciary standard and are therefore unable to make investments that lack the potential to yield market rate returns.

In contrast, 'impact-first' investors prioritise social and/or environmental considerations and are sometimes willing to accept concessionary financial returns by taking greater risks or accepting a lower return to achieve the desired impact (Ormiston et al., 2015; Brest & Born, 2014). Other impact-first investors, such as charitable foundations and family trusts, tend to be satisfied if their investments yield inflation-linked returns (Harji & Jackson, 2012).

The idea that finance-first impact investors 'do good' can be called into question from a Kantian perspective. In his seminal *Groundwork of the Metaphysics of Morals*, Immanuel Kant (1785) argued that the moral worth of an action depends on the motive for undertaking the action rather than the consequences resulting from the action. Following this line of reasoning, impact investors' actions, however, praiseworthy they may be from a utilitarian viewpoint, fall short of the categorical imperative.

Many researchers, especially those in the field of strategic management, have investigated how organisations respond when confronted by seemingly incompatible multiple institutional logics (Greenwood et al., 2011). As complex hybrid organisations, institutional investors also grapple with the tensions arising from competing goals (Roundy et al., 2017; Greenwood et al., 2011). Whereas some resort to decoupling, that is, showing a public image around one logic while operating internally on another, others compromise (ensuring a minimum of each logic exists) or combine. The latter involves building an organisational identity that can hold the tensions together (Pache & Santos, 2013).

Mogapi et al. (2019) investigated how 15 stakeholders in the impact investment community in South Africa managed the tension inherent in impact investing. They found that participants embraced duality by focussing on value alignment, contracting processes, engaged leadership and sector identification. Muers (2017) concurs and adds that principals need to think about values "as much as they think about growth and financial returns". As will be discussed in the next section, the challenge of defining social and environmental impact has also been identified as a barrier to growing the impact investment market (Phillips & Johnson, 2019; Mogapi et al., 2019).

## 2.3 Defining social and environmental impact

Definitional ambiguity regarding the impact outcome of impact investing has been highlighted by several researchers (Clarkin & Cangioni, 2016; Höchstädter & Scheck, 2015; Jackson, 2013a). Uncertainty and potential moral hazard arise from to the broad range of opinions as to what impact truly constitutes, how it can be measured and who it should be attributed to. As impact investors aim to make social and/or environmental impact alongside a financial return, it is essential that the desired impact is clearly stated in dealings with agents (Myers & Santo-Walter, 2016; Barby & Pederson, 2014).

Impact themes should be plainly articulated in investment policy statements and monitoring and evaluation strategies. Some themes currently observed in practice are quite broad (such as improved access to water and sanitation) whereas others are very specific (such as improved access to potable water through the development of decentralised water purification infrastructure). Other differences are noted in the targeted time frames and priority regions.

Some scholars are in favour of a broader definition of impact while others prefer a narrow one. There are risks to adopting either of these approaches. Research shows that a broad definition allows investors to pursue a wide range of opportunities (Drexler et al., 2014), but could also undermine the credibility of this RI strategy (Arosio, 2011). In contrast, a narrow definition of impact could create the perception that impact investing is a niche investment approach which could, in turn, limit capital flows to the market. Early studies by Barby and Pedersen (2014) and Drexler et al. (2014) promoted a narrow definition on the basis that it might enable the building of track records, risk and return profiles, benchmarks and standardised measurement practices.

## 2.4 Measuring and reporting social and environmental impact

Measuring the nonpecuniary utility of an impact investment is one of the most debated challenges amongst academics and practitioners (Barber et al., 2020; Urban & George, 2018). Early studies highlighted the lack of a universally agreed upon set of metrics to measure social and environmental impact (Skuler et al., 2015; Reeder, 2014; Harji & Jackson, 2012). Although these scholars and some practitioners have called for the standardised metrics, others have argued that non-financial objectives tend to be so specific that uniform measures are impractical.

The lack of a universally accepted measurement system does, however, lead to inconsistent and inadequate reporting, which in turn makes it difficult to evaluate and compare impact across investments and regions (Skuler et al., 2015). Erratic impact track records also result in divergent views as to what actually constitutes impact. Despite progress in recent years, measurement systems, such as the IRIS and Global Impact Investing Ratings System, still do not completely satisfy all principals' requirements.

Phillips and Johnson (2019) found that although non-profit organisations in Canada acknowledged the importance of impact investing, they made limited use of evaluation and impact metrics.

Researchers agree that there will never be a set of standardised metrics that will be universally accepted and used. Agents should nonetheless report their impact on society and nature as reliably as possible. A review of the literature reveals that impact identification and measurement are the two most complex elements of the impact investment process and hence represent significant barriers to the wider adoption of this RI strategy. In the following section, details are provided on the methods used to collect and analyse data on these and other considerations in the largest impact investment market in Africa.

## 3. Methodology

Although impact investing has become more recognised in the global arena (Barber et al., 2020; Agrawal & Hockerts, 2019; Phillips & Johnson, 2019), limited academic research has been undertaken in emerging markets where the majority of impact investment transactions occur (Mogapi et al., 2019). Given the exploratory nature of the study, a qualitative research paradigm was deemed appropriate. We were particularly interested in how participants defined impact investing, what their objectives were and which challenges they experienced in relation to defining and measuring social and environmental impact.

Secondary data were sourced from academic journal articles, industry reports, books, and the websites of prominent impact investors in South Africa. Primary data were collected from 13 impact investors and role players in the local impact investment market. At the time of conducting the study (2016), no usable population or sample frame existed. A sample frame was thus compiled from sources such as Mudaliar et al. (2016), Rockey (2016) and Skuler et al. (2015). Judgemental and snowball sampling techniques were used to identify eligible participants. To qualify for inclusion in the study, a participant had to be an executive decision-maker or person in a managerial role who has made or has helped to facilitate one or more impact investments over the period 2011 to 2016. Seven participants had master's degrees and as indicated in Table 1, most held senior positions and had between six and ten years' investment-related experience.

**Table 1: Sample description**

| Position/ job description | Type of organisation[(a)] | Investment-related experience (years) |
|---|---|---|
| **Manager** | Large responsible investing asset manager | 16 to 25 |
| **Investment analyst** | Medium-sized responsible investing asset manager | 6 to 10 |
| **Head of responsible investment** | Large responsible investing asset manager | 6 to 10 |
| **Development manager** | Medium-sized responsible investing asset manager | 6 to 10 |
| **Chief executive officer** | Small responsible investing asset manager | More than 25 |

| Position/ job description | Type of organisation(a) | Investment-related experience (years) |
|---|---|---|
| **Investment analyst** | Large responsible investing asset manager | 1 to 5 |
| **Senior consultant** | Large responsible investing asset manager | 16 to 25 |
| **Senior consultant** | Independent consultant | 16 to 25 |
| **Chief executive officer** | Impact accelerator | 6 to 10 |
| **Manager** | Economics-based consulting firm | 6 to 10 |
| **Senior project manager** | Specialised academic centre | 6 to 10 |
| **Managing director** | Impact development agency | 6 to 10 |
| **Financial analyst** | Non-profit organisation operating in the green economy | 1 to 5 |
| (a) Large, medium and small-sized asset managers classified on local and international assets under management | | |

An interview guide was developed to facilitate semi-structured face-to-face and telephonic interviews. In Section A of the research instrument, biographical details were requested followed by open-ended questions on the definition of impact investing (Section B), investor motives (Section C) and challenges in defining and measuring impact (Section D). Ethical clearance was obtained from Stellenbosch University's Research Ethics Committee. All interviews were audio-recorded and professionally transcribed. Data collection continued until data saturation was achieved. Directed content analysis was then used to code the transcriptions (Hsieh & Shannon, 2005). Common and contrasting themes across the single embedded case study were then identified (Yin, 2009).

Credibility was ensured by gauging the views of experts, audio-recording the interviews, taking meticulous notes and triangulating thoughts and ideas. To achieve dependability, a reflective appraisal was conducted to confirm that the findings reflected the essence of the raw data gathered. Steps were also taken to ensure that the focus remained on the experiences and opinions of the participants and not our own (Yin, 2009). In the following sections the various themes that emerged from the data analysis are presented.

## 3.1 Impact investing in South Africa

Since the early 1990s many local RI fund managers had an impact investment mandate, either on its own or in conjunction with a positive screening strategy (Viviers & Els, 2017). Most of these mandates centred on the development of social infrastructure and black economic empowerment (ibid). The South African Impact Investment Network was established in 2009 to create a more coordinated market. Unfortunately the network has not been active since 2016.

In 2019, President Ramaphosa launched a national task force called Impact Investing South Africa (2020). The initiative aims to achieve socio-economic justice "by building an inclusive and sustainable economy". Key areas to be targeted in future include affordable housing, health, employment, education, criminal justice, access to finance, financial inclusion, environment, energy, agriculture, and skills development (ibid).

Recognising the need for training and information sharing, the Bertha Centre for Social Innovation and Entrepreneurship now hosts annual executive education courses. Specific attention is given to impact measurement and management.

# 4. Findings and discussion

Participants' opinions on an appropriate, context-specific definition of impact investing are presented first. Next their views on impact investor motives are outlined followed by what they regard as nonpecuniary impact and how this impact is measured and reported in South Africa.

## 4.1 Participants' definition of impact investing

In line with earlier international studies such as Drexler et al. (2014) and Arosio (2011), interviewees also grappled with defining impact investing. Most interviewees did, however, allude to one or more of the key elements that typify impact investments. According to the majority of participants, an impact investment should be an 'intentional' and 'measurable' investment undertaken to create both positive social and/or environmental impact.

Participant Four (an agent) stated that she always differentiates impact investing from within the umbrella of RI base on intentionality: "Intentionality shows that the impact was not accidental or a result of negative screening, but creates a focus on key deliverables that generate positive impact." Other interviewees (principals and agents) also stressed the importance of measuring and reporting impact to demonstrate the true value of these investments.

## 4.2 Impact investors' motives

Participants felt that the majority of impact investors in South Africa were finance-first rather than impact-first investors, but qualified their views. They stated that it depends on what kind of an investor the individual or institution is. In line with Watts and Scales (2020) and Phillips and Johnson (2019), most participants believed that agents, notably asset managers, should be finance-first impact investors given their fiduciary duties. Participant One, a large local asset manager, claimed that "commercial risk-adjusted returns come first and foremost before social impact". These institutions cannot risk financial and reputational failure and must therefore examine the financial case as a priority (Ormiston et al., 2015; Skuler et al., 2015).

Some development finance institutions and foundations in the country were recognised as impact-first impact investors. Interviewees argued that a few of these institutions do not regard themselves as impact investors, but should do so given their funding motives. Impact-first impact investors targeted different degrees of financial return.

Participant Six posited that there should not be a distinction between finance-first and impact-first impact investors. According to this interviewee (a consultant), all impact investors should place an equal emphasis on financial return and social and/or environmental impact "otherwise it is not impact investing". This suggestion is in line with Mogapi et al. (2019), Martí (2018) and Muers (2017) who also stress the need for value alignment when parties in the market enter into multi-task contracts.

While self-interested financial motives seem to dominate, the following remark suggests that there is some recognition of Kant's moral imperative: "For me it [impact investing] is about taking responsible investing a step further and specifically looking at how to make social enterprises more sustainable, especially those that have a social purpose as the core of what they do."

The general motivation for interviewees' involvement in impact investing was the desire to find a financially sustainable way to address grand challenges without sacrificing financial returns. Participants believed that these challenges will not be addressed through sole reliance on government and adaptations to regulation. Emphasis was placed on the use of new technologies and new business opportunities in promoting impact investing as a viable RI strategy. This finding is unsurprising as innovation and change often occur when hybrid organisations acknowledge the latent presence of tensions and seek to manage it (Jay, 2013).

Richardson's (2013) advice to responsible investors is equally applicable to impact investors, whether they are finance-first or impact-first investors. Given deficiencies in the main rationales for RI (the complicity-based doctrine, leverage-based responsibility and universal owner thesis), he suggests that more attention ought to be given to the temporal aspect of RI. Investing for the long-term is "a better approach for SRI if it is to be relevant to the pressing challenges of promoting sustainability and governing global financial markets" (Richardson, 2013:311).

## 4.3 Participants' understanding of impact and the setting of impact objectives

Interviewees articulated a clear aspiration to make a measurable difference over the long term. The wide range of goals pursued by impact investors in the country was aptly captured by Participant Twelve (a development agency). She said that their motivation was to "look for a sustainable way to actually address those very pressing challenges that we face in a very different sphere. So that's where we first came across impact investing and it just makes sense that there should be a focus across the spectrum, not just on a philanthropic side, but right through to the private sectors".

Participant Twelve clearly favours a broad definition of impact investing. Other participants had very specific lists of social and/or environmental outcomes that they wanted to achieve. As indicated in the literature review, a broad definition of impact can create credibility issues, whereas a narrow definition can help agents to better measure and report their impact and hence build a track record.

Participant Nine (an impact accelerator) stated "there is no such thing as a standardised definition of impact". Similarly, Participant Two (an investment analyst) stated that definitions of impact vary, but mentioned that "as long as you clearly articulated what kind of impact you want and how you're going to measure it up front … then I cannot see it as a barrier [to growing the local market]". Almost half of the interviewees expressed the same view. Some participants felt that there can never be a universal definition of impact as social and environmental challenges differ between emerging and developed countries. South Africa also has a number of unique challenges brought on by Apartheid (Brown-Luthango, 2011). This political regime not only exacerbated inequality in the country, but has also resulted in a major shortage of skills.

According to the few participants who perceived definitional ambiguity as a barrier, the main problem was "an uneasiness around the reliability of impact measurement". They also linked that absence of a clear definition of impact to investors pursuing anecdotal and broad impact objectives "only for the sake of having impact objectives". One participant added: "The measurement and reporting of impact is likely to remain poor [in South Africa] as some investors do not fully understand what specific goals they are trying to achieve." Participant Twelve explained it as follows: "At the moment what you are defining as impact is really your own definition [so] the social and/or environmental measurement side is a little bit like the Wild West. There's just no structure."

We are of the opinion that the "Wild West" has become a little less wild since 2016 given significant strides made by scholars and practitioners in the field. Guidance on priority areas and regions are also provided by global institutions such as GIIN, the United Nations Sustainable Development Goals and the Impact Management Project.

Interviewees stressed that an impact investor should clearly articulate the impact objectives that they wish to achieve to overcome this perceived barrier. Therefore, the actual barrier might not be a lack of clarity on what social and/or environmental impact constitutes, but rather the lack of understanding on how to establish clear and detailed social and/or environmental impact objectives. Agents in particular expressed the view that impact measurement would be simpler if social and environmental impact objectives are clearly articulated from the start.

We are of the opinion that the lack of a standardised definition of impact does not represent a barrier for growing the South African impact investment market. A limited understanding of how to establish and balance impact objectives in relation to financial objectives seems to be more problematic. Related challenges include measuring and managing vaguely defined impact goals.

Furthermore, the attribution of impact will be unreliable if the measurement of impact remains anecdotal and simplistic. The underlying challenge may be related to the implications of a small impact investment market in South Africa. There seems to be a shortage of successful impact investment examples. Without having clear evidence of the impact and financial returns that impact investors can earn, many struggle to articulate detailed objectives.

## 4.4 Participants' views on impact measurement and reporting

Very few interviewees regarded the lack of bespoke metrics as a barrier to impact investing in South Africa. Both principals and agents stated that several metrics existed to measure nonpecuniary impact. They attributed the use of project-specific indicators to available standardised metrics being too "restrictive and limiting". Despite the availability of measurement tools, several interviewees grappled with impact reporting. These interviewees claimed that the lack of a uniform disclosure format resulted in inconsistent reporting. Not only were reports incomparable within the same sector, but also over time. Phillips and Johnson (2019) also flagged a lack of knowledge of the impact investment market, inadequate financial literacy and challenges in measuring and valuing social impacts as barriers in Canada.

At the time of conducting the interviews, impact reporting might have been regarded by some participants as a public relations endeavour, especially in cases where agents tried to position themselves as impact investment specialists. A study evaluating the nature and extent of voluntary active ownership reporting found some evidence of such a differentiation strategy amongst local PRI asset manager signatories (Viviers & Steyn, 2019). The researchers argued that local asset managers who highlighted 'points of difference' rather than 'points of parity' were able to attract more clients who recognised the value of active ownership. The same might be true in the case of impact reporting.

Since 2016 there has been significant market progress with the release of IRIS+, the Impact Management Project's 'five dimensions of impact', the International Finance Corporation's Operating Principles for Impact Management and further industry alignment to the Sustainable Development Goals (Bass, Dithrich, Sunderji & Nova, 2020). As a result, the impact investment market is increasingly harmonising around a selected number of tools and frameworks, both in terms of impact measurement *and* reporting.

As outlined by Harji and Jackson (2018), there are many methods, approaches and tools in use, or adapted for use, to measure impact. We are of the view that these tools require further streamlining and highlight the need for more documentation and analysis of how these tools have been applied in practice and how effective they are. Thus far, efforts to develop a deeper knowledge base in practice have been led by market research initiatives such as the Impact Management Project, Navigating Impact, and Accelerating Impact Measurement and Management.

Despite the efforts to create coalescence in the field, the 2020 GIIN survey revealed that market participants still regarded impact reporting as a major challenge (Hand, Dithrich, Sunderji & Nova, 2020). An interesting observation regarding the confusion that remains was highlighted in this GIIN survey: although "sophistication of impact measurement and management practice" was reported as the second-greatest area of progress, it also remained the second-greatest challenge (ibid). This contradiction shows that there is still a long way to go to agree on best practices. Judging by the growth in the global impact investment market, the lingering confusion does not seem to be a major stumbling block. More debate and training on the topic is, nonetheless, recommended.

Those individuals charged with compiling impact reports would also do well to heed MacIntyre's (1971) warning about creating a culture of emotivism. This contemporary moral and political philosopher posited that the use of moral language to "manipulate attitudes, choices, and decisions" creates "a theatre of illusions in which objective moral rhetoric masks arbitrary choices". Nowhere is this warning more apt than in global financial markets.

## 5. Summary, conclusions and recommendations

In line with prior scholars, participants in this study agreed that impact investments should be 'intentional', 'measurable' and create 'positive' impact alongside financial return. According to the participants, most impact investors in the country, as elsewhere in the world, prioritise market-related, risk-adjusted financial returns over social and/or environmental impact.

The majority of interviewees did not consider definitional ambiguity as a major barrier to growing the local impact investment market. They did, however, find it difficult to articulate specific impact objectives that could match their financial return expectations.

A more significant barrier is the limited understanding of how to establish and balance multiple objectives. Evidence from this study confirms many of the tensions and trade-offs identified by Mogapi et al. (2019) in the South African impact investment market.

Participants felt that impact objectives were often quite broad, which complicates the measurement and reporting. They called for a standardised reporting format to create consistent impact reports across multiple years – more so than standardised metrics. Some participants also suggested that it is easier to consider the financial merits of an investment before formulating social and/or environmental impact objectives.

In light of the above, a number of recommendations are offered. Firstly, more emphasis should be placed on defining clear social and/or environmental impact objectives that can generate positive financial return. These returns do not always have to be market-related, but should at least beat inflation. Impact objectives should be formulated at an early stage of the investment process and should be specific enough to enable accurate measurement and reporting. Extensive and reliable reporting will not only build a principal or agent's track record, but could also provide a competitive advantage.

Secondly, impact investors are encouraged to share success stories. By doing so, they could provide case studies that will help others set realistic impact objectives and create better track records. Market coordinators in South Africa and further afield should create more opportunities for role players to network and share information on impact measurement, management and reporting.

For the impact investment market to realise its full potential and minimise moral hazard, more education, training and research is required. Future research could focus on the methodologies behind successful impact investors and the development of consistent impact reporting frameworks. Attention could also be given to the effectiveness of initiatives such as the Impact Management Project and the United Nations Sustainable Development Goals in promoting impact investing.

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